A People's Fed:

To serve the public interest, the Federal Reserve must become fully public.

Here's how.

THE NATIONAL CAMPAIGN FOR A STRONG ECONOMY FED UP

THE CENTER FOR POPULAR DEMOCRACY

THE PROBLEM:

The Federal Reserve is literally owned and controlled by commercial and Wall Street banks

Comparison of the Governance and Ownership of Eight Major Central Banks Around the World

United States: Mostly private
Each of the twelve Reserve Banks are private corporations that issue shares of stock to member banks. Commercial banks elect 2/3rds of the Reserve Bank directors, who in turn select the Reserve Bank presidents.

European Central Bank: Public
The ECB's capital is comprised of shares bought by all EU member state national central banks. The shares are proportionate to the country's share of EU population and Gross Domestic Product

Bank of England: Public
The UK government fully owns the Bank of England. Additionally, the Bank of England code has strong conflict of interest regulations in place that prevent Governors from becoming Directors at Bank of England-regulated firms.

Bank of Japan: Mostly public
Though the Bank of Japan issues some private shares, the vast majority of shares are owned by the Japanese government. Bank of Japan leadership is prohibited from carrying out commercial business.

Swiss National Bank: Mostly public
As a joint-stock company, the Swiss National Bank is listed on the stock exchange. Approximately half of shares are held by public shareholders. The remaining shares are owned by individuals.

Bank of Canada: Public
Since 1938, the Bank of Canada has belonged to the Canadian government. The Bank of Canada Act prohibits Governors or Deputy Governors from serving as "a director, partner, officer, employee or shareholder of" at Bank of Canada-regulated firms.

The Reserve Bank of Australia: Public
The Reserve Bank of Australia is wholly owned by the Commonwealth of Australia. Additionally, Australia's Reserve Bank Act prohibits Board members from being employees of "authorised deposit-taking institution[s]."

Reserve Bank of New Zealand: Public
The Reserve Bank of New Zealand is wholly owned by the New Zealand government.

Central Bank of South Korea: Public
The Central Bank of South Korea's original capital was entirely subscribed to the South Korean government.

To raise the money needed to start the Federal Reserve System in 1913, commercial banks purchased "stock" ownership in the 12 regional Federal Reserve Banks. In exchange, these commercial banks received a yearly dividend from the Federal Reserve and received a vote in electing Reserve Bank directors and presidents. **As a result, instead of being public institutions accountable to the American people, the Federal Reserve Banks are owned by and accountable to the very same commercial and Wall Street banks that they are supposed to regulate. And the powerful Reserve Bank presidents, who are responsible for setting America's monetary policy, are private officials.**

Each Reserve Bank is overseen by a board of directors, and two-thirds of those directors are chosen by the commercial banks.

One-third of the seats on each board are reserved for representatives of the banks themselves. These directors select and oversee the president of each regional Federal Reserve Bank, giving private commercial banks tremendous control over America's monetary policy.

When the Fed was first founded, most central banks around the world served a primary function as a "bank for the bankers." However, following the collapse of the gold standard in the early 1930s, central banks became responsible for setting the course of monetary policy, which has crucial implications for the general public, not just the commercial banks. **Consequently, most central banks around the world today are public, including (for all practical purposes) the central banks of all other major advanced economies.**

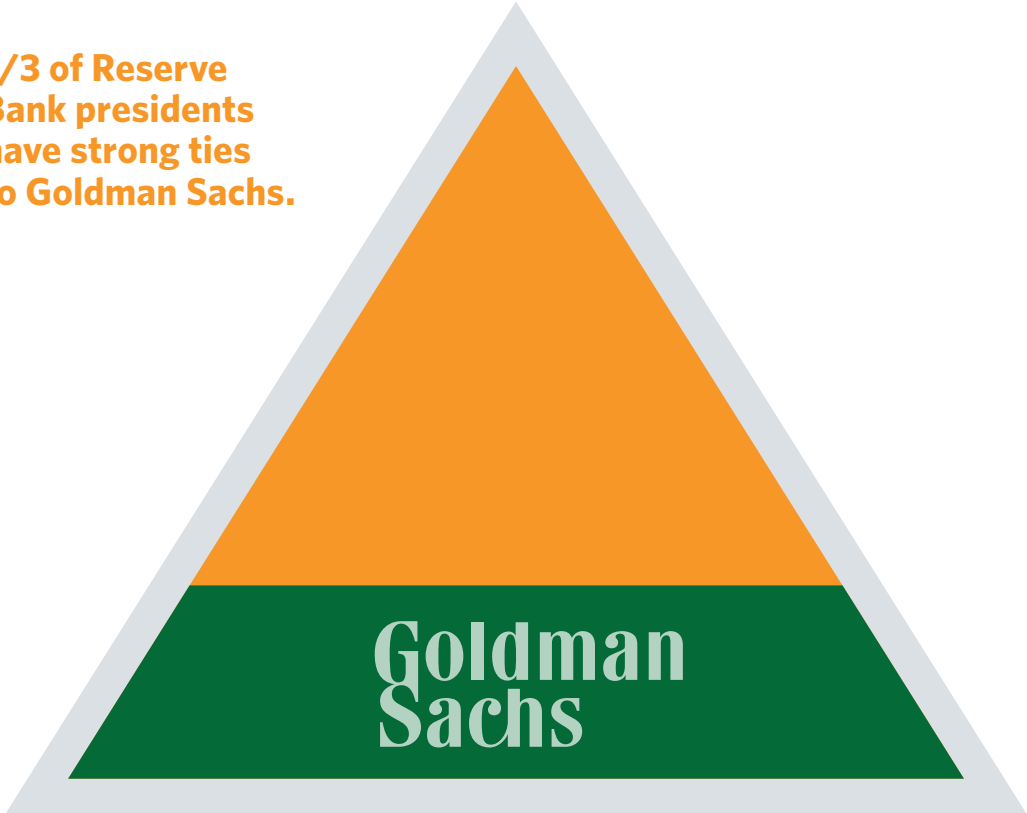
THE PROBLEM:

The process for choosing Fed officials is broken, opaque, and filled with conflicts of interest

The presidents of the 12 regional Federal Reserve Banks are arguably the most powerful private officials in the country. They make decisions with huge implications for every person in America, yet the public is completely shut out of the process for choosing them.

In 2015, three consecutive Reserve Bank presidential vacancies were filled by individuals with strong ties to Goldman Sachs. And two of them played a role in their own selection. In 2016, all Reserve Bank presidents were appointed to new, five-year terms without any transparency or public input.

1/3 of Reserve Bank presidents have strong ties to Goldman Sachs.

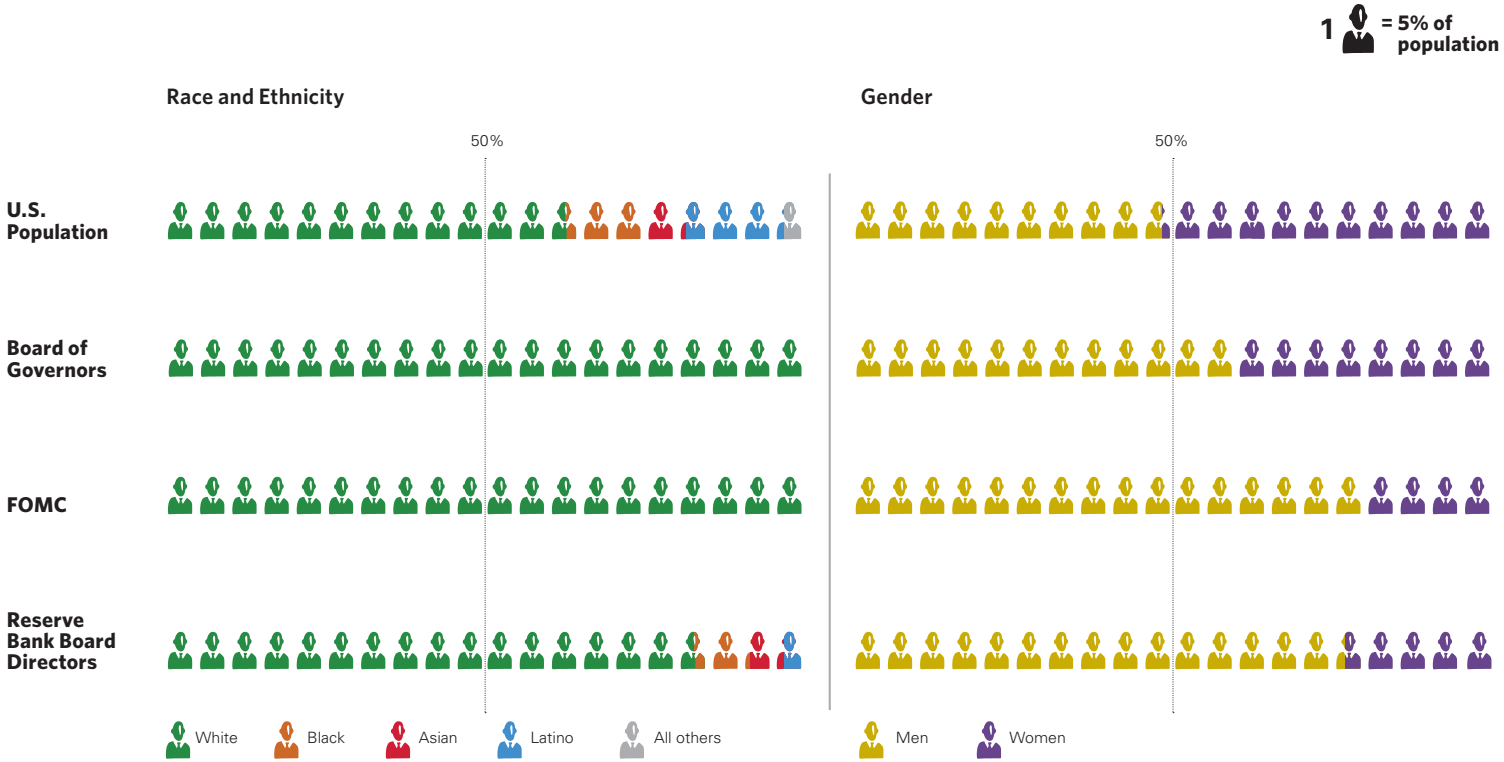


THE NATIONAL CAMPAIGN FOR A STRONG ECONOMY FED UP

CPD ACTION

THE PROBLEM:

Black and Latino communities have almost no voice inside the Federal Reserve



Federal Reserve Bank presidents and directors are supposed to represent the public, but they are overwhelmingly white, male, and from corporate and financial backgrounds. In fact, there has never been a Black or Latino Reserve Bank president in the history of the Federal Reserve System. When communities of color and representatives of workers and consumers are excluded from leadership positions within the Fed, their interests are too often ignored. For example, the minutes from the Fed's policy meetings in 2010 show that policymakers completely ignored labor market conditions for Black workers.

This is not a new problem: for many decades, the Federal Reserve has prioritized the interests of bankers and corporations over the interests of low-wage workers. This has had particularly harmful impact on millions of workers of color who cannot find good jobs.

THE PROBLEM:

The Federal Reserve is shielded from public oversight

Regional Federal Reserve Banks

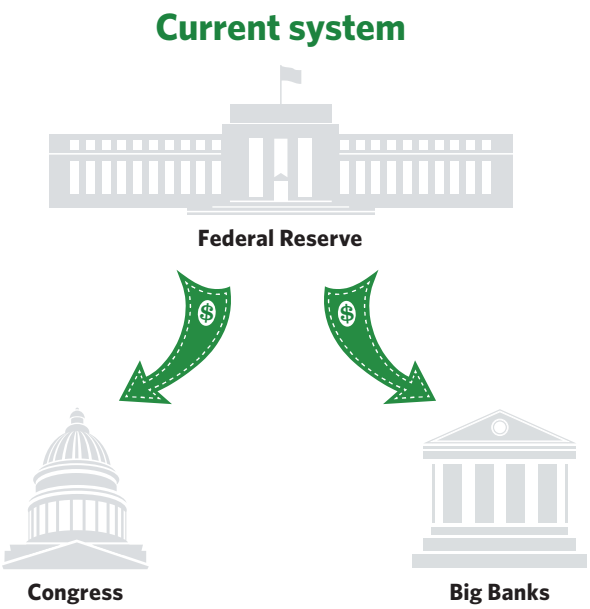
Examples of public agencies subject to FOIA

- Department of Treasury
- Federal Bureau of Investigation
- Securities and Exchange Commission
- Federal Deposit Insurance Corporation
- Bureau of Alcohol, Tobacco, Firearms, and Explosives
- Department of Defense
- Department of Justice
- Department of Agriculture
- Bureau of Prisons
- Drug Enforcement Administration
- National Security Agency
- Department of Interior
- Consumer Financial Protection Bureau
- Department of Energy
- Central Intelligence Agency
- Center for Disease Control and Prevention
- US Trade Representative
- Food and Drug Administration

Congress passed the Freedom of Information Act (FOIA) in 1966 to encourage a "general philosophy of full agency disclosure." Because the people of the United States have a right to know what their government is doing and why decisions that affect them are being made, all public agencies and government institutions are subject to FOIA, and must turn over documents deemed in the public interest upon request. The operations of the DC-based Federal Reserve Board of Governors are subject to FOIA requests. **But because the 12 regional Federal Reserve Banks are private institutions, they claim exemption from FOIA, shielding a huge amount of the Fed's daily operations and transactions from good-faith disclosure and public oversight.** The public is also kept in the dark about other elements of the Fed's work—unlike other agencies, the Fed's Inspector General is not independent (rather, s/he is an appointee of the Federal Reserve Chair), and the Government Accountability Office is prohibited from reviewing many important aspects of the Fed's work.

✓ **THE SOLUTION:**

End commercial bank ownership of the 12 Federal Reserve Banks

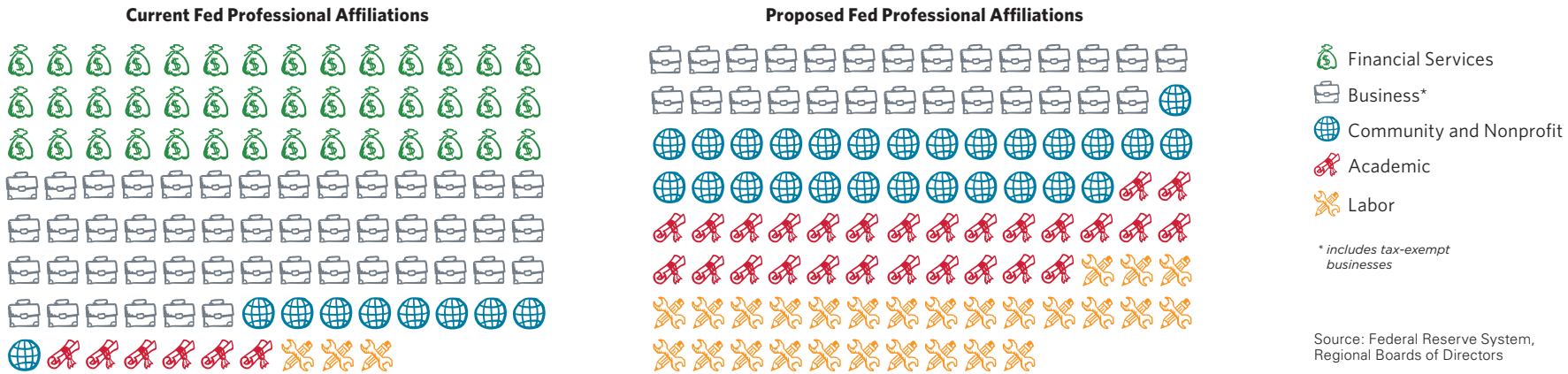


Making the Federal Reserve fully public requires ending the legal ownership that commercial banks have over the 12 regional Federal Reserve Banks. Congress must mandate that the commercial banks return the Federal Reserve stock that they own in exchange for a return of their paid-in capital. The transaction would have no cost to the federal government and would have only a trivial effect on the Fed's balance sheet. Commercial banks would no longer own stock in the regional Reserve Banks, so the Fed would no longer pay them an annual dividend.

Every year, the Fed sends its profits to the Treasury, usually resulting in $25-100 billion in revenue for the federal government. **By eliminating the annual dividend to commercial banks, the Fed would increase its net income, bringing in an estimated $3 billion in additional federal revenue over ten years.**

✓ **THE SOLUTION:**

Make all Federal Reserve officials public employees who represent the American people



Representatives and employees of financial institutions should be prohibited from serving as directors at Federal Reserve Banks. And financial institutions, which are regulated by the Fed, should have no role in selecting directors either. Instead, the Board of Governors should appoint all Reserve Bank directors, after consulting with elected officials; community, consumer, and labor organizations; academics; and other representatives of the public within the region. **The Board of Governors should ultimately choose a diverse set of directors who understand economic conditions for all sectors of the local economy, including for the communities of color whose voices have been left out of Fed decision-making for so long.**

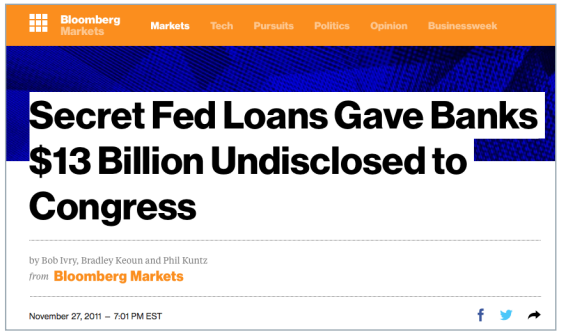
In choosing Reserve Bank presidents, Reserve Bank directors should consult with elected officials in their Federal Reserve district to identify candidates. Reserve Bank directors must conduct a transparent and publicly inclusive process for choosing Reserve Bank presidents. This means, at a minimum, Congress should require:

- A public schedule for the process, including for interim steps in the process;
- The opportunity for members of the public to serve on the search committees;
- A public set of criteria that will guide the decision-making;
- Publication of the names of candidates under consideration;
- Mechanisms for members of the public to submit questions and receive answers from potential candidates; and
- The use of public forums where the public can discuss issues of monetary policy and Federal Reserve governance with the search committee, candidates, and other officials

✓ **THE SOLUTION:**

Align transparency at the Fed with other public institutions

The entire Federal Reserve System should be subject to external reviews and disclosure requirements just like every other key public agency. The Government Accountability Office should produce a regular annual review of the Fed's policies, procedures, management, and operations. Such reviews will identify key shortcomings, risks, and opportunities for improvement and will facilitate appropriate congressional oversight. The Fed's Inspector General should be given authority to conduct investigations at all regional Fed Banks, not just at the Federal Reserve Board in Washington DC. **And the Freedom of Information Act, which currently applies only to the Federal Reserve Board, should be extended to cover the regional Fed Banks as well.**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Secret Fed Loans Gave Banks $13 Billion Undisclosed to Congress

by Bob Ivry, Bradley Keoun and Phil Kuntz
from **Bloomberg Markets**

November 27, 2011 – 7:01 PM EST


The New York Times Magazine

You're Not Supposed to Understand the Federal Reserve

On Money
By ADAM DAVIDSON OCT. 30, 2015


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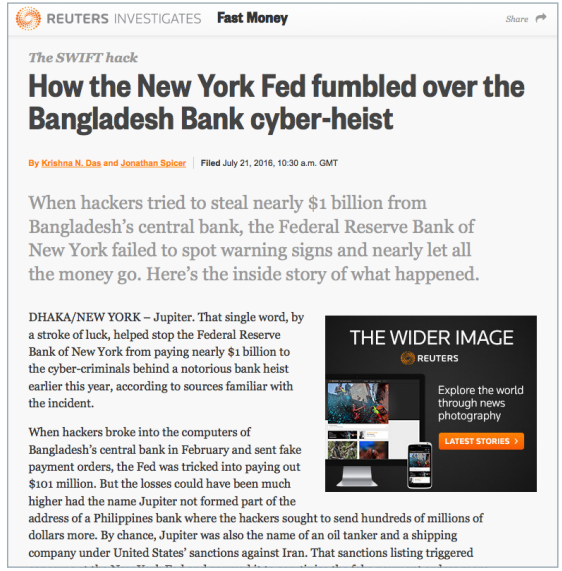
Questions About Leak at Federal Reserve Escalate to Insider-Trading Probe

Firm at center of probe says it is a media organization with special legal protections


REUTERS INVESTIGATES **Fast Money**

The SWIFT hack

How the New York Fed fumbled over the Bangladesh Bank cyber-heist

By Krishna N. Das and Jonathan Spicer | Filed July 21, 2016, 10:30 a.m. GMT

When hackers tried to steal nearly $1 billion from Bangladesh's central bank, the Federal Reserve Bank of New York failed to spot warning signs and nearly let all the money go. Here's the inside story of what happened.

DHAKA/NEW YORK – Jupiter. That single word, by a stroke of luck, helped stop the Federal Reserve Bank of New York from paying nearly $1 billion to the cyber-criminals behind a notorious bank heist earlier this year, according to sources familiar with the incident.

When hackers broke into the computers of Bangladesh's central bank in February and sent fake payment orders, the Fed was tricked into paying out $101 million. But the losses could have been much higher had the name Jupiter not formed part of the address of a Philippines bank where the hackers sought to send hundreds of millions of dollars more. By chance, Jupiter was also the name of an oil tanker and a shipping company under United States' sanctions against Iran. That sanctions listing triggered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Fed Has Giant, and Opaque, Role in Financial Crisis Aid

By Neil Irwin
Washington Post Staff Writer
Monday, November 24, 2008

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